

AUDIT REPORT ON BUYING SYSTEM

1. BACKGROUND

The company ran a manual order book system for several years until fraud was detected within the accounts department. At this stage it was believed that an electronic system will assist in putting preventative measures in place that would reduce the risks associated with a manual system as well as assist in enforcing compliance with procedures.

In addition, with the planned change in the accounting package it was imperative to implement a computerised buying system which accommodated an accrual basis of accounting in order to expedite reporting.

The electronic buying system was first rolled out in 2007 to the Head office, Durban and Construction branches. At this stage further roll out to various branches were halted until mid 2008 due to a large number of complaints being received from users about the system being restrictive and difficult to use.

Since then a large number of changes have been made to accommodate various user requests with a view to expediting the process and catering for procurement in a crisis situation.

2. PURPOSE OF THE REPORT

The report is intended to:

- Identify areas that may be leading to bottlenecks in the process and look at alternatives if needs be.
- Determine whether we have addressed any of the risks identified after the first fraud was uncovered.
- Agree on a procurement culture and the way forward.
- Effectiveness in deterring fraud.

3. CURRENT PROCESS & POLICY – SEGRATION OF DUTIES & QUOTE REQUIREMENTS

The current process requires 4 people to start and complete the process, namely:

- Requisitioner
- Buyer
- Authoriser
- Receiver

The Buyer is required to obtain the following number of quotes, which is dependent on the order value:

- 1 Verbal Quote – Under R1000
- 1 Written Quote – Under R2000 and more than R1000
- 2 Written Quotes – Under R5000 and more than R2000
- 3 Written Quotes – Over R5000

Exceptions are catered for in the instance of emergencies, limited service providers or contractually agreed prices.

4. FINDINGS

a. ORDER STRATIFICATION

OBJECTIVE

Establish whether or not the number of quotes as determined by the policy above is burdensome and restrictive on the company's operations.

FINDINGS

ORDER VALUE	NUMBER OF ORDERS	% OF TOTAL	VALUE OF ORDERS	% OF TOTAL
R1000 & LESS	7,954	46.47%	3,081,042	4.05%
R2000 & MORE THAN R1000	2,929	17.11%	3,995,313	5.25%
R5000 & MORE THAN R2000	3,142	18.36%	9,066,499	11.92%
R5000 & MORE	3,090	18.05%	59,944,770	78.78%
TOTAL	17,115	100%	76,087,623	100%

The data above is based on a 20 month period commencing January 2008 up to and including August 2009. The data can be considered representative of the company as it only excludes the PMB branch. All other major operations have been on the current system for at least a period of 6 months.

The table above clearly reflects that the purchasing pattern of the company lends itself to a large number of orders of low value i.e. 63% of the volume of transactions and 9% by Rand value require only one quote.

A further 18% requires two, and a further 18% requires three quotes accounting for 12% and 78% by Rand value respectively.

CONCLUSION

One would have to agree that the quoting requirements are not onerous, especially where 63% of transactions require one quote and a further 18% requires two quotes.

b. ANALYSIS OF ACTUAL QUOTES OBTAINED

OBJECTIVE:

To establish how many quotes were actually obtained in terms of the Policy and consequently the level of compliance.

FINDINGS

The following table above reflects a summary of the actual quotes obtained by the company for the period January 2008 to August 2009. For further details refer to **Appendix 1**.

QUOTES OBTAINED	NUMBER OF ORDERS	%	ORDER VALUE	%
NO QUOTES	8,219	48%	32,044,360	42%
1 QUOTE	6,424	38%	6,746,506	9%
2 QUOTES	2,041	12%	28,605,867	38%
3 QUOTES	431	2%	8,690,891	11%
TOTAL	17,115	100%	76,087,623	100%

The “No Quotes” category is high and represents orders placed after the goods were delivered and comprises 48% business. (After the event)

The transactions processed on a three quote basis only represent 2% of the business.

CONCLUSION:

Approximately 86% by volume (51% by Rand value) of the transactions are processed with either no quotes or a single quote. The number of quotes obtained can therefore be ruled out as bottleneck in the process.

The level of compliance is low.

c. ORDERS PROCESSED PER BUYER

OBJECTIVE:

Establish whether the volumes of orders processed by the buyers is high, leading to bottlenecks in the process.

FINDINGS

QUOTES OBTAINED	NUMBER OF ORDERS	ORDERS PER MONTH	ORDERS PER BUYER PER DAY	% ORDERS PER BUYER PER DAY
NO QUOTES	8,219	411	0	
1 QUOTE	6,424	321	4.3	71.7%
2 QUOTES	2,041	102	1.4	23.2%
3 QUOTES	431	22	0.3	0.1%
TOTAL	17,115	856	6.0	100%

Each buyer is processing on average 6 orders per day which translates to less than 1 order per hour.

Of the 6 orders processed approximately 4 had a single quote and less than 2 were processed with 2 quotes.

In the instance where the buyer obtained quotes for all transactions, the number of orders processed will go up to 11 per day. Of the 11 orders 7 will require a single quote, 2 will need 2 quotes and the remaining 2 will need 3 quotes .

CONCLUSION:

The number of orders processed per day is very low, reflecting low levels of productivity. Volumes of orders processed cannot be considered as a constraint.

d. WORKFLOW ANALYSIS

OBJECTIVE:

Identify steps in the buying process that could be causing delays in service delivery.

FINDINGS:

DATE	NUMBER OF ORDERS	AVG DAYS TO COMPLETE REQUISITION	AVG DAYS TO ACCEPT REQ	AVG DAYS TO OBTAIN QUOTE	AVG DAYS TO AUTHORISE	AVG DAYS TO PLACE ORDER	AVG DAYS TO DELIVER
JAN 09	275	0	2	4	1	1	6
FEB 09	433	0	1	2	1	0	7
MAR 09	530	0	1	3	1	0	8
APR 09	410	1	3	3	1	0	7
MAY 09	481	4	1	4	2	0	7

JUN 09	474	2	1	3	1	0	5
JUL 09	607	1	1	3	1	0	4
AUG 09	390	0	1	4	1	0	2
Grand Total	3600	1	1	3	1	0	6

From the time the requisitioner has completed the requisition and up until delivery of the goods, the process takes 11 days which is a significant amount of time

The problem areas are primarily:

- Number of days to obtain the quote – 3 days
- Time taken for delivery of the goods after the order has been placed – 6 days
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The average number of days to obtain quotes is high considering that 72% by volume of our transactions have been processed with one quote.

The lag in delivery is due to neither the requisitioner nor the buyers following up with suppliers to ensure goods are delivered on time. The problem is exacerbated in an electronic environment where users are almost expecting this to happen automatically.

It is a possibility that decent descriptions are not used on requisitions through poor choice of product codes, which could slow buyers down in obtaining quotes.

e. SUPERFLUOUS STEPS

The following steps are generally touted as being unnecessary or time consuming. The importance or relevance of the steps are listed below.

OBTAINING QUOTES

This step is important for the following reasons:

- It keeps supplier pricing keen.
- Reduces the risk of orders being placed with favoured suppliers.

AUTHORISING

This step is important so that branch management can:

- Control expenses upfront
- Question the decisions made by subordinates, such as replace versus repair decisions.
- Prevent unnecessary work from being carried out.
- Obtain explanations for inadequate number of quotes.

In the absence of the steps above no effective management of the operations can take place at branch level.

f. EFFECTIVENESS IN DETERRING FRAUD

The system has addressed the risk the creditor's personnel could capture transactions for payment without orders or other individuals being involved in the process. Transactions are now imported from the buying system into the accounts package, which eliminates this risk.

The electronic system is rendered ineffective in certain circumstances or due to the following features being introduced to allow users greater freedom or flexibility in the interest of operational efficiency:

- Self Authorisation
- Emergency
- Quote Overrides
- Orders placed after the event

g. DEGREE OF COMPLIANCE

OBJECTIVE:

To determine the level of compliance with reference to the quoting framework and requirement to place orders before delivery.

ORDER VALUE	DATA	TOTAL	NON COMPLIANT	% NON COMPLIANCE
R1000 & LESS	NUMBER OF ORDERS	7,967	4,117	52%
	ORDER VALUE	3,317,527	1,554,033	50%
MORE THAN R1000 & LESS THAN R2000	NUMBER OF ORDERS	2,929	1,380	47%
	ORDER VALUE	3,995,313	1,905,032	48%
MORE THAN R2000 & LESS THAN R5000	NUMBER OF ORDERS	3,142	2,427	77%
	ORDER VALUE	9,066,499	7,187,165	79%
R5000 & MORE	NUMBER OF ORDERS	3,090	2,659	86%
	ORDER VALUE	59,944,770	51,253,879	86%
TOTAL	NUMBER OF ORDERS	17,115	10,583	62%
	ORDER VALUE	76,087,623	61,900,109	81%

FINDINGS:

The level of non compliance is highest in the category requiring 3 quotes and in categories where only 1 or 2 quotes are required non compliance is marginally lower.

CONCLUSION:

The high level non compliance in all categories clearly reflects the difficulty experienced in migrating from a base with no governance to a more structured environment.

CONCLUSION:

The company is at huge risk as a consequence of no quotes being obtained for approximately 50% of the business. This needs to be addressed as a matter of urgency.

General unhappiness with the system would appear to stem from:

- Delays in obtaining quotes.
- Long lead times for delivery of goods

All other steps in the process take approximately a day and will not play a significant role in slowing down service delivery.

Delivery times are highly dependent on buyers and requisitioners following up on orders placed with suppliers. Standard reports are available on the system to manage the process and should be used more often.

RECOMMENDATIONS

Delivery Times

The buyers are unable to prioritise their workloads currently as requisitioners do not use the "Due Date" field to indicate when the goods or serviced are required. Proper use of this date field will assist in reducing the delivery lead times.

SYSTEM REPORTS

The users do not make use of existing reports which have been designed to assist users in managing the buying process. The use of these standard reports will assist in all parties involved expediting orders on the system.

NON STOCK DATABASE

Requisitioners and buyers must become pro-active in growing the database. This will result in finding users being able to find items on the system when needed and the company will have more accurate data on items being purchased.

APPENDIX 1

CATEGORY	AFTER DELIVERY	QUOTE OVERRIDE	DATA	TOTAL	ZERO QUOTES	1 QUOTE	2 QUOTES	3 QUOTES	NON COMPLIANT	% NON COMPLIANCE	
LESS THAN R1000	NO	NO	NO. OF ORDERS	3,837		3,837					
			ORDER VALUE	1,527,009		1,527,009					
	YES	NO	NO. OF ORDERS	4,117	4,117				4,117	52%	
			ORDER VALUE	1,554,033	1,554,033				1,554,033	50%	
MORE THAN R1000 & LESS THAN R2000	NO	NO	NO. OF ORDERS	1,549		1,549					
			ORDER VALUE	2,090,281		2,090,281					
	YES	NO	NO. OF ORDERS	1,380	1,380				1,380	47%	
			ORDER VALUE	1,905,032	1,905,032				1,905,032	48%	
MORE THAN R2000 & LESS THAN R5000	NO	NO	NO. OF ORDERS	715			715				
			ORDER VALUE	1,879,333			1,879,333				
		YES	NO	NO. OF ORDERS	1,038		1,038			1,038	
				ORDER VALUE	3,129,215		3,129,215			3,129,215	
	YES	NO	NO. OF ORDERS	647	647				647		
			ORDER VALUE	1,836,937	1,836,937				1,836,937		
		YES	NO	NO. OF ORDERS	742	742				742	77%
				ORDER VALUE	2,221,013	2,221,013				2,221,013	79%

APPENDIX 1 CONTINUED

CATEGORY	AFTER DEL.	QUOTE OVERRIDE	DATA	TOTAL	ZERO QUOTES	1 QUOTE	2 QUOTES	3 QUOTES	NON COMPLIANT	% NON COMPLIANCE
MORE THAN R5000	NO	0	NO. OF ORDERS	431				431		
			ORDER VALUE	8,690,891			8,690,891			
		1	NO. OF ORDERS	1,326			1,326		1,326	
			ORDER VALUE	26,726,533		26,726,533		26,726,533		
	YES	0	NO. OF ORDERS	565	565				565	
			ORDER VALUE	9,023,661	9,023,661			9,023,661		
		1	NO. OF ORDERS	768	768				768	86%
			ORDER VALUE	15,503,685	15,503,685				15,503,685	86%
TOTAL NUMBER OF ORDER				17,115	8,219	6,424	2,041	431	10,583	62%
TOTAL ORDER VALUE				76,087,623	32,044,360	6,746,506	28,605,867	8,690,891	61,900,109	81%

NOTES

1. The data was adjusted for "Quote Overrides" in cases where the required number of quotes was not obtained. For example a transaction with a value of R5000 with a quote override was allocated 2 quotes. This allocation is conservative and is more than likely that only one quote was obtained.

